

VZCZCXRO1924
PP RUEHPW RUEHRN
DE RUEHRO #0316 0761715
ZNY CCCCC ZZH
P 171715Z MAR 09
FM AMEMBASSY ROME
TO RUEHC/SECSTATE WASHDC PRIORITY 1780
INFO RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 0919
RUEHPW/AMCONSUL PESHAWAR PRIORITY 0253
RUCNDT/USMISSION USUN NEW YORK PRIORITY 0977
RUEHRN/USMISSION UN ROME PRIORITY 0209

C O N F I D E N T I A L ROME 000316

SIPDIS

PRM/ ECA: HASTINGS

E.O. 12958: DECL: 03/11/2019
TAGS: [EAID](#) [PHUM](#) [PK](#) [PREF](#)
SUBJECT: ITALY,S RESPONSE TO PAKISTAN IDP CRISIS

REF: A. SECSTATE 21407
[1](#)B. ROME 0041

Classified By: Economic Minister Counselor Tom Delare
for reasons 1.4 (b) and (d).

[1](#)1. (C) Summary: MFA Counselor Valter Zucconi of the Directorate for Development Cooperation said the GOI hopes to approve between 30 and 40 million Euros in soft loans for Pakistan's provinces bordering Afghanistan by June of 2009. Italy had already pledged one million Euros to the World Food Program in December 2008 for the same Pakistani border provinces. Nevertheless, Zucconi said that Italy's decision to cut development spending by sixty percent from 2008 to 2009 clashed with its desire to lead on Afghanistan/ Pakistan border policy as the G8 President. Due to these self-imposed cuts, it is unlikely that Italy will contribute substantial amounts of new money in response to the recent UN and ICRC appeals for internally displaced Pakistanis. End Summary.

[1](#)2. (C) On 9 March, Econoff delivered demarche inquiring about Italy's response to Pakistan's Internally Displaced Persons problem to Valter Zucconi, Development Expert for Assistance to Pakistan within the Directorate for Development Cooperation of the Italian MFA. Zucconi did not provide a specific pledge in response, but noted that the GOI was in negotiations with the government of Pakistan over a 30 to 40 million Euro package of soft loans. These would be directed at the Pakistani provinces adjacent to Afghanistan, such as Baluchistan and the Federally Administered Tribal Areas (FATA). Zucconi said that because the terms are exceptionally generous -- an 18 year grace period without interest or payments, with an additional 19 years to repay the loan -- the net present value of these loans are equivalent to a grant of eighty percent of the amount borrowed. The Pakistani government (GOP) has accepted this soft loan system in principle, but it has not sent an official request, which the GOI expects to receive within three weeks. Zucconi believes the GOI Board of Directors will approve the GOP request in May or June.

[1](#)3. (C) According to Zucconi, the preferred method for Italian assistance to Pakistan has evolved over the past few years, from debt forgiveness to debt restructuring to a new emphasis on soft loans to farmers and small businessmen. In 2003 Italy cancelled half of the 160 million Euros in Pakistani debt it was owed. In 2006, Pakistan and Italy agreed to convert the remaining 80 million Euros of debt into funds for development, to be repaid from 2007-2011. Approximately twenty to thirty percent of these funds have been and will continue to be spent in the Pakistani provinces bordering Afghanistan, Zucconi said. The GOI expects the last of the projects funded by this agreement to be complete by the end of 2013. So far, Pakistan has made good on its first two tranches of payment, for 2007 and 2008, totaling 32 million Euros.

¶4. (C) Zucconi said that aid to Pakistan had "not been a priority until a few months ago. But now with (Italy serving as President of) the G8, it IS one of Italy's priorities." Currently Italy lacks a development cooperation office in Pakistan, but it hopes to add one over the coming year or two, Zucconi said. As the meeting was drawing to a close, Zucconi (strictly protect) made a personal aside to highlight the contradiction between the ambitious role and mantle of generosity (ref B and septel) that PM Berlusconi has tried to assume (as G8 President) and the concurrent cuts in development spending of approximately sixty percent, which impair the work of the MFA's technical development experts. He noted that since the details of which programs are to be cut have not been divulged and because many of Italy's pledges (such as its \$100 million for Gaza) are multiyear in scope, the inevitable clash between Italy's ambitious pledges and its limited aid budget has temporarily been postponed.

¶5. (C) Comment: Perhaps feeling the heat of the G8 limelight, the Berlusconi government seems to be making pledges that may exceed the government's ability to fulfill. As always, GOI assistance pledges -- especially for the out years -- need to be taken with a grain of salt. End Comment.

DIBBLE